

## **Attachment D**

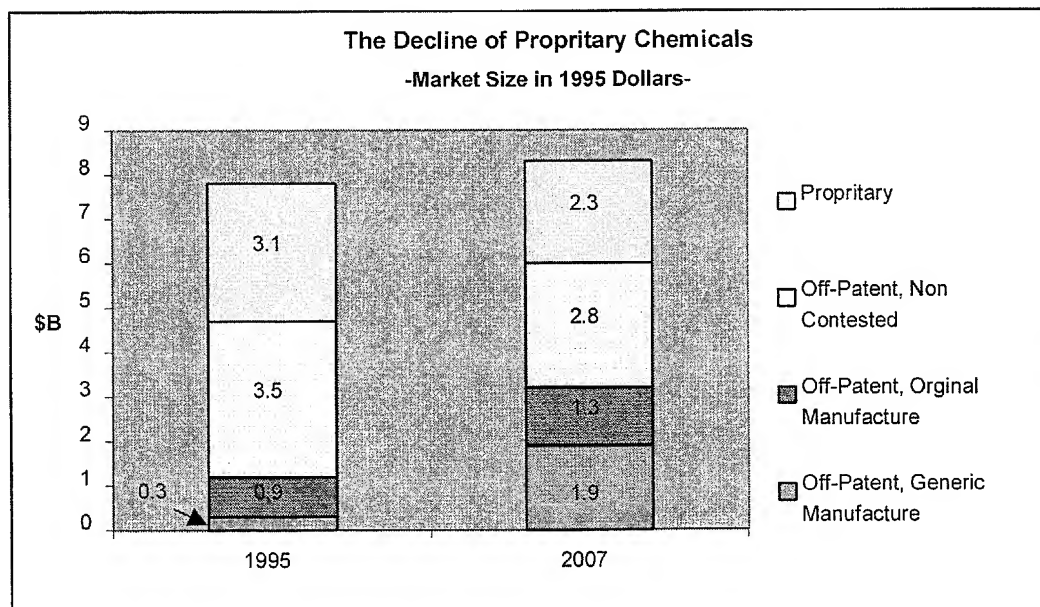
## 10 Reasons Why and Exchange Floor makes sense for Agriculture Inputs

### The industry has inherent volatility

Agriculture by its nature is an unpredictable business; a gamble. Major forces influencing this business are “Acts of God” which include flood, drought, disease and pestilence. The ‘act’ in one state, whether it be in the US or Brazil will dictate a variation in supply and demand on a global scale. To help manage this risk the Chicago Board of Exchange, the Cotton Exchange and others were formed. XSAg.com is creating the next logical exchange to help the industry manage inputs efficiently in times of variable supply and demand.

### Many products are now commodities

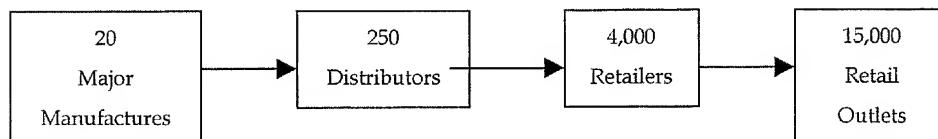
The “green revolution” that started in the 1960’s and continued through the early 1980’s produced a significant new number of proprietary agrochemical products. The rate of new products has slowed and the market value size of proprietary chemicals is slowly declining with patent expirations. In 1995 proprietary products represented 40% of all chemical inputs while it is expected in 2007 they will represent 28%. Farmers are for the most part fully informed on the majority of chemical inputs and therefore most of the value attached to information about these products is no longer required. A trading floor will allow the market to dictate the real value of the chemical.



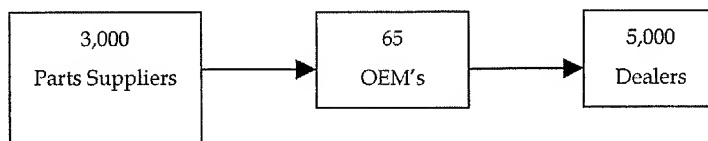
### **Distribution is fragmented**

The overwhelming size in two of the input distribution channels clearly reveals high levels of fragmentation in the market place.

#### Agrochemical Channel



#### Farm Equipment Parts



Within the current agrochemical distribution channel it is estimated that inter-trading totals \$23 billion, or approximately 2.5 times the size of the market while in the Parts channel it nears \$29 billion or 2.8 times the market size. Channel consolidation is currently occurring. The exchange floor would simply hasten this process and allow the U.S. farmer to be more competitive in the global economy.

### **Distribution has inefficiencies**

#### *Agrochemical*

Within any fragmented distribution system inefficiencies will exist. It is estimated that current chemical inventory is nearing 40% of annual production. In addition many manufactures offer complex rebate programs to encourage loyalty and smooth profitability. These can vary by geography and therefore restrict the flow of inventory. The existence of a brokered market (\$600-\$800 million in trading) validates the inefficiencies in the chemical distribution system

#### *Seed*

Farmers often place duplicate orders at two vendors when they are unsure of supply. On the flip side research also shows that up to 30% of farmers do not make their final seed selection until 4 weeks prior to planting. Both situations create two main problems 1) the seed channel will have larger than required inventories on hand prior to the farmer making his final seed decision and 2) typically farmers can return nearly 30% of an order, which in turn helps to artificially inflate prices.

Creating an exchange floor would significantly reduce the need for large chemical and seed inventories helping the entire industry become more efficient.

#### **Farmers are familiar with exchanges**

The grower that XSAg.com currently targets is a typically running a business as opposed to looking at farming as a way of life. The business-focused growers are currently using the Chicago Board or Cotton Exchanges to manage farm risk and therefore are already familiar with the terminology and processes found in the XSAg.com website.

#### **Many products are standardized**

Agrochemical Inputs are highly regulated by the government. Every chemical, brand name or its generic equivalent, has an EPA registration number, which requires the manufacture to provide information on such things as toxicity, handling and use. Likewise equipment parts are numbered and cross-referenced to provide standardized parts catalogues. This standardization allows buyers and sellers to have a common language when trading. This common language, i.e. an exchange floor eliminates any information barriers related to the product for sale.

#### **Willingness of the market to Adapt and Adopt**

Survivors adopt new ideas and process in order to adapt to market forces. Farmers are survivors. Nearly 90% of targeted users have Internet access with >70% using the Internet weekly. The farming community is adopting to adapt and the smartest farms will survive by using the XSAg.com trading floor.

#### **Increasing Complexity in Farming Choices**

With the development of transgenic seeds with more advantageous growing traits, e.g. high oil corn, there has been an explosion in the number of choices a growers has when selecting seed. Purchasers of the farm outputs are starting to pay differently for grains, e.g. high oil corn vs. non-transgenic corn. A farmer's decision is now and will continue to become more complex. His choices will be, lock in on a seed (forward contract) or wait till the last minute (spot) thus allowing him to determine the most profitable seed to plant based on current market dynamics. An exchange floor for inputs will allow a grower to maximize his return and minimize his risk.

#### **Increasing Complexity of Information Management**

The farm equipment parts industry derives its complexity from the 5-6 million parts available. There is no one place to shop for all parts. Providing a searchable database attached to trading floor will allow the industry participants to access parts more efficiently and at a better price.

#### **Non-transparent pricing**

In addition to the complex manufacture rebate programs, many products are priced to value in a given geography. In the aggregate this makes sense, however there are portions of the end user market where the product value to price is too high. This segment currently has no alternative to the geographical price limits. The national exchange floor would allow them to place their own value on the product instead being restricted to the preset geographical pricing limits.